

Montana Teachers' Retirement System Board Meeting

May 17, 2024

BOARD MEMBERS PRESENT

Kari Elliott, Chair
Daniel Chamberlin, Vice Chair (*virtual*)
Daniel Trost, Member
Dee Brown, Member (*virtual*)
Elliott Crump, Member
Brian Youngren, Member

STAFF PRESENT

Shawn Graham, Executive Director
Tammy Rau, Deputy Executive Director
Denise Pizzini, Chief Legal Counsel
Nolan Brilz, Accounting/Fiscal Manager
John Noble, Information Systems Manager
Darla Fitzpatrick, Communications Manager
Jennifer Van Syckle, Communications Specialist

OTHERS PRESENT

No members of the public were present.

Call to Order

Chairperson Kari Elliott called the meeting to order at 8:30 a.m.

Adoption of the Agenda

Chairperson Elliott requested a motion to adopt the meeting agenda.

Motion/Vote: Member Daniel Trost moved to adopt the agenda and Member Elliott Crump seconded. It was approved by all members.

Approval of Minutes

Chairperson Elliott requested a motion to approve the minutes from the February 21, 2024 meeting.

Motion/Vote: Member Crump moved to approve the February 21, 2024 minutes as written. Member Trost seconded the motion and it was approved by all members.

Public Comment on Board Related Items

This is an opportunity for members of the public to comment on any public matter not on the agenda and within the jurisdiction of the Board.

No members of the public attended the meeting in person or online.

Executive Director's Report

Legislative Concepts

Executive Director Shawn Graham reviewed two legislative proposals TRS has submitted to the Governor's Office of Budget and Program Planning as placeholders for the 2025 legislative session. The first, a placeholder for a general revisions ("housekeeping") bill, would clarify or correct statute as necessary for administrative and/or IRS tax qualification purposes. The other placeholder bill would recommend an increase to the employer supplemental contribution rate paid to TRS by the Montana University System (MUS).

Director Graham reviewed the history of the MUS supplemental contribution rate and explained that, under §19-20-621, MCA, the Board must periodically review and determine whether that rate (currently 4.72%) is sufficient to amortize, by July 1, 2033, the unfunded liability created in 1993 when TRS was closed to new hires of the University System. If the supplemental contribution rate is not sufficient, the Board must recommend an increase to the Legislature and has done so for many years. However, no Legislature since 2007 has acted on those recommendations and the unfunded liability for MUS's remaining TRS members has continued to increase. The actual rate necessary to amortize that unfunded liability will not be known until the July 1, 2024 actuarial valuation of TRS has been completed. The Board will review the valuation at the October 2024 meeting, at which time they may determine the MUS employer supplemental contribution rate to be recommended in the placeholder bill.

Director Graham answered additional questions about recent legislation and possible future legislation affecting TRS. No additional suggestions were made for the two TRS placeholder bills.

Executive Summary

Director Graham has presented to eight of the nine regional Montana Association of School Superintendents (MASS) groups thus far and is scheduled to attend the Western MASS meeting in September. Superintendents seem to appreciate the 2023 working retiree bill (HB 117) that has helped them fill vacant teaching positions, but they realize it is not a permanent solution.

TRS recently welcomed two new employees, Hays Bartruff and Brittany Black, who filled the vacant Benefit Specialist positions on the TRS Retired Payroll team. Robert Grotzke, one of TRS's imaging technicians, will move out of state soon and TRS has begun recruiting for that position.

Director Graham then provided a summary of the March 14, 2024 joint meeting of the State Administration and Veterans' Affairs (SAVA) committee and SJ 4 Pension Study Group, which included presentations from several consulting firms about pension funding. Another meeting is scheduled for May 23, 2024 and Director Graham will testify on the history of the MUS supplemental contribution rate, as well as on TRS's role in teacher recruitment and retention. Results from the 2023 survey of active TRS members indicated that most respondents believe the Defined Benefit pension is an important tool to help attract and retain qualified teachers.

Public Comment

No members of the public were present.

Administrative Business

Investment Report

Member Daniel Trost, who represents TRS on the Montana Board of Investments (BOI), reported that the BOI has achieved at least \$25 million in administrative cost savings so far this year, in part through renegotiation of contracts with the State of Montana. When administrative costs are lower, dividends back to the retirement systems are greater. He commented that, as someone who works in the financial services industry, he is impressed by the amount of money the BOI manages on behalf of the State for such a low cost.

At its last meeting, the BOI also discussed investment strategies and how best to maintain consistent benchmarks against which to measure performance year over year. Member Trost reviewed the investment report for March 31, 2024, which show that for the year to date, TRS returns are exceeding the actuarially assumed rate of return (currently set at 7.30%).

FY 2023 Legislative Audit Report

TRS Accounting/Fiscal Manager Nolan Brilz reported that TRS's FY 2023 legislative audit resulted in an unmodified opinion with no findings or recommendations. Chairperson Elliott congratulated Mr. Brilz on another successful audit.

FY 2024 YTD Financial Statements and Budget Reports

Mr. Brilz reviewed the March 31, 2024 fiscal reports, which present the fund's assets, liabilities, revenue and expenses as compared to the same period last year. Revenue for fiscal year 2024 has increased by approximately \$100 million, primarily due to investment growth, and the overall fund balance has risen above \$5 billion once again. There were no questions from Board members.

Mr. Brilz then provided an overview of the Operating Budget Status Report and stated that TRS is likely to have a budget surplus up to \$200,000 by the end of the fiscal year, due primarily to staff vacancy savings as well as audit fees. He explained that the Legislative Audit Division performs two annual audits for TRS; however, their fees are budgeted on a two-year basis and approximately \$100,000 of the surplus in that category will carry over to fiscal year 2025.

Personnel Committee Report

Chairperson Elliott and Member Crump recently met with Jim Kerins of Communication Management Services to review survey responses from Board and staff members on Director Graham's performance in 2024. Chairperson Elliott commented that he receives consistently high ratings and keeps the Board well informed of progress on the strategic plan, which is an important tool for evaluating his performance. Members Crump and Brown noted that he is well respected among legislators, superintendents, and other stakeholders and is a great advocate for TRS.

Budget Committee Report and Budget Justification

Members Daniel Chamberlin and Brian Youngren met with Director Graham and Mr. Brilz to review each line item in the TRS budget request for fiscal year 2025. Member Chamberlin commented that, while costs continue to increase in some categories due to inflation and other factors, TRS consistently keeps administrative expenses far below the limit set in statute. He believes this is a testament to TRS's effective leadership and administration. Member Youngren said

that as a new member of the Board, he asked many questions about the budget and he appreciated the clear answers he received from Mr. Brilz.

Chairperson Elliott noted that, although the Board is kept well informed on the budget status at every meeting, members should discuss any questions or concerns about the FY 2025 budget now as they would be asked to approve it later in the meeting. No concerns were raised.

PRISM Verbal Report

John Noble, TRS Information Systems Manager, recently attended the Public Retirement Information Systems Management (PRISM) conference in Austin, Texas. He reported that many other systems around the country are expanding online services to members and that cybersecurity and fraud prevention continue to be common topics of discussion. He had an opportunity to speak with peers from other systems who are using services that TRS intends to use, such as GitLab for source code management and DocuSign for member services. He has arranged a virtual meeting with a representative from a pension system in Texas to learn how they use DocuSign.

Mr. Noble answered questions from Board members about the online security methods currently used by TRS and ways in which DocuSign might help expand online services to TRS members.

Tentative 2024 Meeting Dates

Members of the Board reviewed tentative dates for the remainder of 2024 (August 2, October 4, and December 6). Chairperson Elliott is unable to attend in person on August 2, but may attend virtually. No scheduling conflicts were noted for the October and December 2024 meetings.

Public Comment

No members of the public were in attendance.

Interest Rate Credited to Member Accounts

Director Graham provided a summary of all agenda items requiring Board action, beginning with the interest rate credited to active TRS members' accounts.

Each May, the Board sets the interest rate for the next fiscal year, and historically has used the Montana Board of Investments' Short Term Investment Pool (STIP) rate as a point of reference. Currently, STIP earns more than 5.00%, although the rate has fluctuated throughout the year.

TRS recommends increasing the interest rate from 4.00% to 4.50% for fiscal year 2025. However, members Trost and Chamberlin suggested a smaller increase may be prudent, given that the Federal Reserve Board is expected to reduce interest rates in the coming months.

Motion/Vote: After discussion, Member Trost moved to increase the interest rate credited to member accounts from 4.00% to 4.25% effective July 1, 2024. Member Crump seconded the motion, and a rate of 4.25% was approved by all members.

Renew Cavanaugh Macdonald Contract

Director Graham reviewed the renewal addendum for TRS's actuarial consulting firm and he clarified that the new contract rate will remain fixed for four years. He believes the requested increase is reasonable, given Cavanaugh Macdonald's consistent service to TRS and their ability to

respond quickly to questions. Member Brown asked whether TRS has considered soliciting bids from other actuaries. Director Graham indicated that doing so would almost certainly increase costs, as significant staff time and additional programming would be required to provide member data in a format that meets the new actuarial firm's specifications.

Motion/Vote: After discussion, Member Chamberlin made a motion to approve the contract renewal for Cavanaugh Macdonald Consulting, with Member Trost seconding. The motion was approved by all members.

Renew Ice Miller Contract

TRS has maintained an annual contract with Ice Miller, LLP since 1993 for tax counsel services. TRS Chief Legal Counsel Denise Pizzini stated that few firms, and none within the state of Montana, have Ice Miller's particular expertise in IRS tax qualification standards for public pensions and she values their guidance.

Motion/Vote: After discussion, Member Youngren moved to approve the contract renewal for Ice Miller. Member Trost seconded the motion and it was approved by all members.

Renew Drake Law Firm Contract

This four-year contract provides for outside counsel on contested case matters. TRS pays only for services provided, and with no contested cases in fiscal year 2024, none of the budgeted amount has been spent. When contested case matters do arise, Ms. Pizzini represents the retirement system while an attorney with the Drake Law Firm is brought in to represent the Board.

Motion/Vote: After discussion, Member Trost moved to approve the contract renewal for Drake Law Firm with Member Crump seconding. The motion was approved by all members.

Milliman Actuarial Audit Contract

The Board's strategic plan requires that TRS obtain an actuarial audit every five years, with the next audit scheduled to occur in fiscal year 2025. The purpose of the actuarial audit will be to provide an outside opinion of Cavanaugh Macdonald's July 1, 2024 actuarial valuation of TRS and ensure their actuarial methodology is appropriate. Director Graham explained that TRS chose to contract with Milliman because the company now employs the actuary who performed the last actuarial audit of TRS.

Motion/Vote: After discussion, Member Crump moved to approve the contract with Milliman to conduct an actuarial audit. Member Trost seconded the motion and it was approved by all members.

FY 2025 TRS Budget Request

Chairperson Elliott provided another opportunity for members of the Board to ask questions or seek clarification on specific line items within the budget request. TRS Fiscal Manager Nolan Brilz pointed out that while the overall budget request has increased by approximately \$200,000 (or 4.79%), \$130,000 of that increase is due to a statutory pay raise granted to all State employees by the 2023 Montana Legislature.

Chairperson Elliott requested a motion to approve the TRS budget for fiscal year 2025.

Motion/Vote: Member Trost made a motion to approve the FY 2025 budget request. Member Crump seconded the motion, and it was approved by all members.

Out-of-State Travel Requests

Director Graham reviewed two requests for out-of-state travel to National Conference on Teacher Retirement (NCTR) events. Board members have an opportunity to attend the NCTR Trustee Workshop in July 2024, which provides valuable information that is highly relevant to their role. This request would authorize a designated number of Board members to attend. NCTR also will host a Customer Service Workshop in June 2024, and this request would authorize TRS Communications Manager Darla Fitzpatrick to attend.

Chairperson Elliott requested a motion on out-of-state travel requests.

Motion/Vote: Member Brown moved to allow up to two Board members to attend the 2024 NCTR Trustee Workshop and the TRS Communications Manager to attend the 2024 NCTR Customer Service Workshop. Member Trost seconded the motion, and it was approved by all members.

Next Meeting Date

The next Board meeting is scheduled for Friday, August 2, 2024.

Board Training

Non-Discrimination in Employment and Provision of Services

Chief Legal Counsel Denise Pizzini began by confirming that members of the Board who are currently employed receive period training on nondiscrimination. She also invited Board members to make use of online training modules available through the Department of Administration. Those modules cover both state and federal law on accessibility and non-discrimination.

Ms. Pizzini then provided an overview of the TRS Policy of Non-Discrimination in Employment and Provision of Services, noting that it incorporates the State of Montana policy and expands on it. The policy describes how TRS ensures compliance with federal and state law in hiring employees and providing services to TRS members, beneficiaries, and others. Ms. Pizzini then answered procedural questions from members of the Board.

Legal Counsel's Report

Ms. Pizzini announced there are currently no contested case matters and she is unaware of any pending issues that may become contested cases.

Applications and Benefit Adjustments

Regular, Survivorship, Adjustments and Corrections

Deputy Director Tammy Rau reported that staff had processed 62 applications for retirement benefits between February 1 and April 30, 2024. These retirees' average age was 60.48 years and they had an average 15.39 years of creditable service with TRS.

Long Range Planning

2023-2025 Strategic Planning Commitment Worksheet Updates

Chairperson Elliott explained for newer Board members that every meeting includes a status update on objectives listed in the Commitment Worksheet. These updates help the Board understand the day-to-day operations of TRS and evaluate Director Graham's performance each year.

Director Graham then described how TRS has made progress on several objectives, including a design for a responsive website and a potential way to use DocuSign to verify a user's identity for certain online transactions rather than requiring a notarized signature. Other ongoing activities include his attendance at regional MASS meetings, which is nearly complete for this year.

He also spoke about TRS's role in encouraging school districts to offer optional retirement savings plans to TRS members, such as the MPERA 457(b) plan. While TRS cannot offer such a plan to school districts, Director Graham obtained information from MPERA that he includes in his presentation to MASS groups. Member Trost indicated the MPERA 457(b) would provide more investment options to members at a lower cost than would a 403(b) plan set up with a private investment firm. Member Crump asked whether MPERA might provide information on the number of districts currently offering the 457(b) option to employees.

There were no additional questions or comments about items on the Commitment Worksheet.

Public Comment

No members of the public were present.

Disability Applications

Closed Meeting

Executive Session to Discuss Disability Applications

The Board began its executive session at 10:52 a.m. to review one application for disability retirement benefits. This session was closed to the public, as a disability applicant's right to privacy clearly exceeds the merits of public disclosure.

Open Meeting

Chairperson Elliott reopened the meeting at 10:59 a.m. and requested a motion.

Approval/Disapproval of Applications for Disability Retirement Benefits

Motion/Vote: Member Trost moved to approve member J.W.'s request for disability retirement and Member Youngren seconded the motion. The request for disability retirement benefits was approved by all members.

Public Comment

No members of the public were present.

Adjournment

With no other business before the Board, Chairperson Elliott requested a motion to adjourn.

Motion/Vote: Member Trost moved to adjourn, with Member Crump seconding. The meeting was adjourned at 11:00 a.m.

Chairperson /s/ Daniel Chamberlin (Vice Chair)

Executive Director /s/ Shawn Graham